Q2 2013 Snam SpA Earnings Conference Call

Transcript

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Investor Relations Snam
T +39 02 37037272 F +39 02 37037803
investor.relations@snam.it

Corporate Participants

- Carlo Malacarne
  Snam SpA - CEO
- Antonio Paccioretti
  Snam SpA – CFO

Conference Call Participants

- Olivier Van Doosselaere
  Exane BNP Paribas – Analyst
- Enrico Bartoli
  MainSource Bank - Analyst
- Stefano Gamberini
  Equita SIM - Analyst
- Stefano Bezzato
  Credit Suisse - Analyst
- Javier Suarez
  Mediobanca - Analyst
- Sarah Laitung
  JPMorgan - Anaylst
- Roberto Ranieri
  Banca IMI - Analyst
- Pablo Cuadrado
  Bank of America/Merrill Lynch - Analyst
- Gesete Rebusini
  Analyst

Presentation

Operator [1]

Good day, and welcome to the Snam 2013 Interim Review Conference Call. Today's conference will be recorded. At this time, I would like to hand the call over to Mr. Carlo Malacarne. Please, go ahead.

Carlo Malacarne, Snam SpA - CEO [2]

Good afternoon, ladies and gentlemen, and welcome to the Snam's 2013 Interim Review presentation. Today's agenda will be structured in two parts. First, I will start by outlining the main highlights of the first half and some recent developments.

Antonio will then focus on our first half financial results in more detail. Then, after the presentation, we will be pleased to answer any questions you may have.

Let me begin with the main highlights for the first half as well as giving you an update on the business.

For the first half of 2013, I'm pleased to report a solid set of operating and financial results consistent with our track record of delivery, despite a tough environment. Snam's sound operating performance over the period is highlighted by EUR1.775 million of revenues and EUR1.396 million of EBITDA, up 3.4% and 2.8%, respectively. This was the same period of 2012.

The increase in consolidated EBITDA was achieved thanks to the growth in the regulated revenues across our businesses and our continued focus on the control of operating costs. EBIT reached EUR1.020 million, up approximately 1% on a like-for-like basis.

From a business segment perspective, growth at EBIT level was driven by the higher contribution of both the transport business, in which EBIT increased by approximately 1%, following the euro, despite their reduction of gas volumes transported, and the storage business in which EBIT increased by approximately 9%, EUR14 million.

The positive trend of EBIT growth was offset by higher financial charges due to higher outstanding debt and to the debt refinancing resulting from the ownership unbundling from

ENI. As a result, net income reached EUR462 million, down around the 9% on a like-for-like basis.

In the first half of 2013, cash flow from operation of EUR919 million fully financed net investment in the period of EUR577 million, generating a positive free cash flow of EUR342 million.

This underlines the soundness of our growth strategy and our commitment to maintaining a solid and efficient capital structure.

As of the end June 2013, Snam's net debt was around EUR12.6 billion. Last, but not least, during the first half of the year, we took significant measures, (inaudible) lowering the average cost of debt, with significant results expected in the year.

Let me now provide you with an update on the latest developments in Snam's international strategy.

Following an international competitive bidding process, which began in 2012, the consortium formed by Snam, 45%; GIC, 35%; and EDF 20% yesterday, completed the acquisition of TIGF gas transfer and storage asset from Total for an enterprise value of EUR2.4 billion. It's worth highlighting that our evaluation of TIGF assets reflect our strict financial discipline and is expected to generate a risk adjusted the return well above one of our current asset portfolios.

Thanks to the financial scheming demanded for the acquisition, the financial commitment for Snam is below EUR600 million.

TIGF managed 5,000 kilometers of pipelines which carry 13% of the total volume of gas transported in France, and operates 22% of the country's gas storage capacity, with two important gas storage sites.

With approximately 500 employees, TIGF generated revenues of over EUR350 million in 2012. Snam, will jointly control TIGF together with its financial partner GIC, and we provide industrial know-how in order to leverage the significant expertise it has in managing and developing gas infrastructure.

The acquisition of TIGF is in line with the Snam's international growth targets as it paves the way for building up a strategic platform for gas infrastructure development in Europe, creating opportunities for better inter-connecting Spain and the rest of Europe including Italy.

This deal allows Snam to diversify its regulatory and geographic risk, also providing for new investment opportunities with assets at various stage of infrastructure investment cycle.

TIGF and Snam's business models are similar. This provides the opportunity of a better shaping an integrated storage and transportation offering and afford us the possibility of extracting value thanks to Snam's superior industrial know-how in managing integrated activities.

Finally, I'm pleased to inform you that we will be providing more details on our international growth strategy and TIGF, specifically, during an investor day which will be held on the 10th of October.

Let me now provide you with a quick overview of the gas demand trend in Italy.

In the first half of 2013, gas consumption totaled 38.4 bcm, down 6.8%; 2.8 bcm year-on-year. The decrease was mainly driven by the reduction in gas consumption in the power generation sector. In particular, the thermoelectric sector experienced a decrease around 21%, approximately 2.6 bcm, driven by the reduction of approximately 4.2% in electricity demand, down 7 terawatt hour mainly due to the negative trends in the macroeconomic environment, the remarkable recovery in hydroelectric production, up 7.6% terawatt hour, driven by higher levels of rainfall during the period. The significant increase in electricity production from renewable sources, 4.8 terawatt hour, in particular, solar energy.

These negative elements were partially offset by reduced usage of coal and oil products in the thermoelectric production. Gas demand in the industrial sector decreased by around 4% on a like-for-like basis, as a consequence of the declining trend in industrial production in Italy throughout the period.

Gas consumption in residential and commercial sector increased by 1.3%. It was mainly due to the higher usage of gas versus other sources. In particular, oil for house oil heating.

Finally, gas injected into the network for the first half of 2013 decreased by 15.6%. The difference between gas injected into the network and the gas demand trend is related to storage flow. In particular, the withdrawal activity in the period was significantly higher than the same period of 2012, 3.5 bcm, as the result of lower injection activity during the second quarter of the year.

For the full year 2013, our current forecast envisages a slightly better gas consumption trend than the one registered in the first half, a decrease in the range of 5%. And with regard to gas volume transported, we expect on a full year basis our recovery compared to the trend registered in the first half, also due to the positive contribution from injection activity in the remaining part of the year. This should bring the final trend closer to the one envisaged for the gas demand.

Let me conclude by reaffirming Snam's commitment to deliver attractive return to its shareholders. Our aim has always to combine an attractive dividend with capital growth. To fulfill this commitment on the basis of the financial results achieved for the first half of 2013, the Board of Directors has approved the distribution of an interim dividend for the fiscal year 2013 of EUR0.10 per share, which will be paid on October 24.

For the fiscal year 2013, we are committed to retaining our dividend per share at the same level as the 2012 dividend per share, EUR0.25 per share. So far, in 2013, we have distributed around EUR510 million to our shareholders as the final (inaudible) dividend for 2012, EUR0.15 per share.

And if you also consider the interim dividend for the fiscal year 2013 to be paid next October, approximately EUR340 million, the total cash distributed to our shareholders in 2013 will amount to around EUR850 million. The total cash is approximately 7%, and ranks at the top of the European utilities sector.

Looking forward, we are confident that our strategy, our leading market position and our operational performance together with our strong capital structure will allow us to deliver significant value to our shareholders.

Thanks, that's all for me. I will now hand you over to Antonio, who will discuss our first half consolidated result in greater detail.

Antonio Paccioretti, Snam SpA - CFO [3]

Thank you, Carlo, and good afternoon, everyone. Looking at the consolidated income statement of the first half 2013, EBITDA marked an increase of EUR38 million, up 2.8% while the growth of EBIT was limited to EUR7 million, up 0.7%, reflecting the increase of the appreciation.

Net profit for the period amounting to EUR462 million showed a decrease of about 9.1%, compared to the same period of 2012, reflecting the increase of average debt in the period, and the higher average cost of debt resulting from the refinancing activity implemented in 2012.

Total revenues amounted to EUR1,775 million. If we exclude pass-through components, regulated revenue has posted an increase of about 3.6%, compared to the first half of 2012, thanks to the following elements.

Transport revenues increased by EUR17 million even in the current scenario of gas consumption slow down. The positive contribution from the investments carried out in 2011, equal to around EUR50 million, was partially offset by the negative amortized adjustment of EUR10 million and by the effect of decrease of gas injected into the network of EUR20 million.

As you know, 2013 is the last year of the (inaudible) regulatory period, if we consider the exposure of around 15% we have in volumes, even considering the decrease in gas demand so far accounted, the additional revenues linked to the effect of the volume effect in the overall four years' period, can be estimated in the range of about EUR20 million.

Pass-through revenues increase is fully due to the overall gas transport system balancing service.

Storage revenues grew by EUR23 million with a remarkable increase of about 10.7%, mainly due to the contribution from investments carried out in 2011. Distribution of revenues increased by EUR18 million mainly benefitting from the amortized adjustment.

Finally, other revenues amounted to EUR20 with a decrease of EUR10 million compared to 2012, many in storage and transport business.

Moving to operating expenses. Total cost increased by EUR21 million, mainly related to the pass-through elements, concentrated among variable and other regulated costs. As far as controllable fixed costs are concerned, the first half 2013 showed a slight decrease of EUR2 million thanks to Snam's operating efficiency management, and also, by the different phasing of activities between the two periods.

On a full year basis, we can confirm our (inaudible) of a controllable fixed costs, flat in real terms.

Other costs, net of pass-through components, increased by EUR14 million because of the growth of the concession fees in the distribution activity and the dynamics of the risk fund provisions. No regulated activities decreased by EUR7 million related to no recurring environmental provision accounted last year.

Consolidated EBITDA amounted to EUR1,396 million, up 2.8%. Depreciation and amortization amounted to EUR376 million with an increase of EUR31 million compared to the same period of the previous year mainly due to the new asset entered into operation and to higher depreciation in the distribution business due to the depreciation of the net consolidation accounted for the new concessions to be calculated on the basis of the period of the concession equal to 12 years, instead of the economical life of the asset.

Please consider the increase of the depreciation expected on a full year basis is mainly concentrated in the first half of the year.

Consolidated EBIT amounted to EUR1,020 million with an increase of 0.7%. Looking at each business segment contribution, let me underline the remarkable positive performance of Stogit, which marked an EBIT growth of EUR14 million, up 8.8%, driven by the increase of regulated revenues.

The slight reduction of Italgas EBIT was mainly due to the effect of the depreciation of the period, while the performance of [Italgas] was affected, as said before, by the lower volumes. Interest expenses amounted to EUR262 million including around EUR31 million of up-front fees accounted in the profit and loss in the period following the repayment in advance of a term loan financing subscribed last year as part of the 2012 group refinancing activity.

Net of this effect, the increase of interest expenses was about EUR64 million, mainly due to the growth of the outstanding average debt for about one-third of the total and to a higher average cost of debt for the remaining part.

In the first half, the different measures we put in place for optimizing our cost of debt, which will be described in the following slide, had a limited effect being implemented between April and May.

For the full year, we expect an average cost of debt of around 3.7%, in line with the cost accounted in 2012 recovering the cost increase we had in connection with the refinancing exercise.

The tax rate was around 42%, in line with the previous year. And the full net profit decreased by 9.1% to EUR462 million.

Now, let's move onto the result of the 2013 (inaudible) exercise we anticipated in our mid-March strategy presentation. Today, most of the job has been done with the material benefit for our financial structure and cost of debt.

Regarding our financial structure, we highlight that today, we have a liquidity buffer represented by around EUR3 billion of undrawn credit facilities. We don't need to carry out any measure refinancing exercise until 2015. Our medium- to long-term outstanding debt average maturity is around 5 years, and it's expected to improve in the future thanks to further contributions from institutional lenders.

As for the latter, we expect the institutional lenders' contribution to grow from around EUR0.7 billion to more than EUR1 billion in the very next future.

As for debt costs, it's worth underlining the actions already completed, April bond issuance and term loan repayment for EUR1.5 billion, pool banking and bilateral facilities renegotiation of margins for an amount of debt of over EUR5 billion.

These actions led to savings in the net financial expenses that can be estimated in around EUR60 million on a full year basis. These factors make us confident to achieve an average cost of debt of around 3.7% in 2013, well below the previous gathering of around 4% given in mid-March before the aforementioned actions.

It's worth it to underline that the reduction of our cost of debt has been obtained, improving at the same time the quality, the soundness of our debt structure, reducing risk related to the interest rate exposure fixed to valuable interest rate ratio from 49% at the end of the last year to 60% at the end of this first half.

And related to refinancing needs duration extended thanks to April bond issuance. In this regard, let me stress that the impact of our optimization exercise on 2013 numbers is limited to 7 - 8 months. Therefore, suggesting further year-on-year improvement in 2014 versus 2013, assuming an exchange interest rate scenario.

Turning to the cash flow. In the first half of 2013, the Group achieved an operative cash flow of EUR919 million, which permitted to finance in full net investments for EUR577 million and resulting in a free cash flow generation of EUR342 million.

Therefore, the increase of net debt in the period was limited to EUR162 million after the distribution of the 2012 final dividend. Looking at the cash components of working capital, the cash generation was EUR117 million, mainly due to the reduction of trade receivables in the distribution business of around EUR107 million related to the building seasonality and to the increase of tax payable of around EUR64 million.

I will now discuss CapEx in more detail. In the first half of 2013, consolidated CapEx gross of subsidies was EUR490 million, down 6.5% compared to the same period in 2012. Under the current regulatory framework, 68 of the total CapEx is expected to receive a premium over the base return. CapEx for the transport and regasification businesses was EUR240 million, around 50% of total CapEx. It's worth a lot in debt, 77% of the total amount is incentivized.

In particular, around 36% of the transport CapEx was deployed on expansion projects and new entry points. Investments in the storage business in the first half of 2013 amounted to EUR105 million, representing around 21% of consolidated Group investments. Around 88% of the storage CapEx received an extra 4% extra remuneration for 8 or 16 years.

Moving to the distribution business, CapEx amounted to EUR143 million. Around 14% of Italgas CapEx was related to cast iron replacement. While 26% was related to metering. CapEx related to the distribution business represented around 29% of the Group capital expenditure.

For the full year of 2013, we confirm the previously announced level of Group consolidated CapEx of around EUR1.3 billion.

Let's now move to the balance sheet. Fixed assets increased by EUR140 million. This was year-end of 2012. This was mainly due to the new investment of EUR490 million and to the reduction of CapEx payable of EUR139 million, partially offset by depreciation of EUR376 million and subsidies for around EUR37 million.

Total net financial debt amounted to EUR12,560 million, up EUR162 million versus year-end of 2012.

Thank you very much for your attention. We will now be pleased to answer any questions you may have.

Questions and Answers

Operator [1]

Thank you. (Operator Instructions). Our first question comes from Stefano Bezzato with Credit Suisse. Please go ahead.

Stefano Bezzato - Credit Suisse - Analyst [2]

Yes, hi. Stefano Bezzato with Credit Suisse. Two questions, if I may. First of all, can you give us an update on the timing of the next regulatory draft for transmission in Italy and what are the main changes that you expect from the first draft and possibly the improvements that you expect from the first draft?

And the second question which is also related to the outcome of the review on the dividend policy, I appreciate your dividend policy will not be updated until your next business plan next year, but can you give us an idea of what is the maximum level of pay-out which you believe is sustainable after 2013? Thank you.

Carlo Malacarne - Snam SpA - CEO [3]

For the first question, Stefano, you know, the second consultation document for the transferred activity issued last week, is completely, entirely focused on the [distractor] of the tariff for the shipper. There is no news and to document about the finalization of the figures inside the [walk] and other figures.

Anyway, without going through the calculation of the allowed revenues, the regulator confirmed his intention to establish capacity challenges which cover 100% of allowed revenues. The second confirmation, the second consultation document, and there is no news. We expect the final document for the transmission by October in the middle of October.

I don't think there will be a new consultation document before the final document. We don't have news in respect of the other comment we have done before. Anyway, the general comment is that I consider the first consultation document in line with our general expectation is through that we have a lot of points to discuss in terms of the walk definition, risk-free and so on, but the technicality, the methodology, and the referring structures set by the regulator are completely in line with our expectation.

For the second question, Stefano, we announced that last February the dividend policy for 2013, only because we had by the end of the year, I think, two or three main events, which we have to analyze the impact in our business and the transmission regulator, distribution regulators, the evolution of the Robin Hood tax.

The reason why we don't -- we don't decide to give you some view for the dividend per share -- only in next February, we will give you a medium- to long-term solution. Anyway, I can confirm that our commitment is any way to deliver significant value to our shareholders.

Stefano Bezzato - Credit Suisse - Analyst [4]

Thank you very much.

Operator [5]

Our next question comes Javier Suarez from Mediobanca.

Javier Suarez - Mediobanca - Analyst [6]

Hi. Good afternoon, this is Javier at Mediobanca. I have three questions. The first one is on the debt structure of the company. We have seen quite of a material improvement in the average cost of debt for the company. I just wanted to -- if you can give us the breakdown between your cost of debt by the end of the first half 2013 between fixed borrowing rate, variable borrowing rates and lending from institutional lenders, the breakdown on that.

How do you see that evolving by the end of 2013 and the end of 2014? I think that the CFO has mentioned that there's room to improve during 2014, and I just was questioning myself if you can give us some more details on that.

The second question is on the consultation documents for gas distribution in Italy. Should we expect the publication of another consultation document before the summer forecast distribution? What is going to be included there? Because the second consultation document on transmission has been a little bit less detail than we were expecting and what we should expect, if anything, from these next consultation documents on gas distribution.

And the very last question is on these (inaudible) pipeline that apparently is moving fast, the effect that this would have on your business plan on the opening on new regasification facilities in Italy on any regulatory date on a regasification plan in Italy that can make you more willing to invest on those facilities. Many thanks.

Antonio Pacciorette - Snam SpA – CFO [7]

(Inaudible), bonjourno. As far as the first question is concerned, the structure today and the evolution we can expect for this year.

First of all, I just want to start saying that the current structure of our debt in terms of fixed and floating rate is around 50%, fixed 40% floating, which is -- has been decided during the second quarter with the objective to increase the solidity of our profit and loss exposure, reducing the risk of floating rates.

You remember that at the end of the last year, such a proportion was 50/50. For the second part of this year, we expect to increase the funding received from European Investment Bank. We are concluding that during these days a new loan for financing the storage activities. We are talking about an amount of around EUR280 million, which we expect to close, I would say, before the holidays.

All in all, what we have in mind is to maintain a 60% fixed rate position leveraging in terms of (inaudible) on the contribution coming from the European Investment Bank. And, in terms of costs, the average cost of our bonds today that represent an important proportion of our debt, around 60%, is at 3.9%. The floating rates -- the other part of our debt which is the funding coming from European Investment Bank, from the institutional lenders, and the other from the banks at floating rates such a cost is clearly lower than the 3.9% I gave.

Today is, I repeat, reasonable to expect an average cost of debt for this year of 3.7%. If you consider this guideline, and if you consider the average cost for the first half which is something around 3.9%, you can easily calculate our current average cost of debt.

Carlo Malacarne - Snam SpA - CEO [8]

From the consultation document of the distribution, you know, between February and June, in June 2013, the regulator established two consultation documents and in the two documents, the main news, we can highlight the first -- the decision to increase the duration of regulatory framework to 6 year from the current 4 years with the possibility of reviewing the work parameters, in particular, the risk-free rate based on the Italian 10 years of government bond, every 2 years.

And, in addition, the efficiency target should be reviewed every 3 years. The second news is the confirmation of the possible introduction of 0.5, 0.6 premium to cover the financial impact of the time lag between the spending and the recognition into the tariff. The two main differences or the two main news in the document.

We expect the next consultation paper in gas distribution, I think before the summer or the beginning of September, even in light of the previous consultation paper, we are not envisioning any discontinuity, let me say in the regulatory framework. This should be the last intermediated step before the final resolution is published which we expect to take place by October. I think in our information we expect should be published soon, the third consultation document.

For the third question for the (inaudible), I tried to summarize the TAP strategy and the impact on our future business plan. You know, the first comment is that their recent decision on the TAP project is, I think, a positive signal for the Italian gas market and for our evolution. And is perfectly in line with both the national energy strategy and the European Union strategy goal of securing and diversifying the future gas supply.

We speak about 10 billion cubic meters coming from the Giant Chersonese (inaudible), and crossing Greece and Albania. We speak about 870 kilometers, the total kilometers and after 5 kilometers to link Italy.

First of all, I can say that there is three main aspects which can contribute to our evolution in terms of strategy and business plans. First of all, the TAP will increase the competition among the gas supply. I think is important in terms of evaluation by the European community to support the top project.

The second aspect is the security of supply of the gas system in Italy. You know, Italy will increase -- it's already well developed and diversified gas supply to six different sources. So with the Azerbaijan, we have a completely diversification of the gas sources.

The second aspect is the emergence of the European (inaudible) in Italy, making, frankly speaking, our net worth the key crossroad of the southern northern European gas transport. In terms of connection with our network, we are discussing the project for the connection with TAP, and I can say that, you know, in our existing business plan, we consider eight new bcm coming from the south of Italy, in the existing business plan.

If, at the same time, and the deadline is 2019, roughly 2019 - 2020, if at the same time, there will be two new sources. One LNG eight bcm, and the TAP 10 bcm. We have to up-date our business plan in part in south of Italy, and with the repowering of the compressor station. Only to give you -- we have to analyze in depth the project, but anyway, to give you an idea in terms of new investment out of the existing business plan is roughly EUR1.2 billion, EUR1.3 billion.

Javier Suarez - Mediobanca - Analyst [9]

Many thanks

Operator [10]

Our next question comes from Olivier Van Doosselaere from Exane.

Olivier Van Doosselaere - Exane BNP Paribas – Analyst [11]

Yes, good afternoon. Thank you very much for taking my questions. I just have two questions. Firstly, now that the acquisition of TIGF has been approved and finalized, I was wondering if you could give guidance in terms of the P&L contribution that you expect from your stake in the company.

And second question was a follow-up, actually, on what you just discussed. Now that we have the TAP pipeline, how likely do you estimate it -- that we will have incremental [bcm] coming from a new LNG project. Do you think that now that the TAP pipeline is there maybe there is just likely, you would have less need of new LNG capacity being added there, or do you still think it's quite plausible that we would have both new sources coming on stream? Thank you.

Antonio Pacciorette - Snam SpA – CFO [12]

Starting from the first question. As we said before, there will be the occasion in October where we will try to give the market more visibility on TIGF. For the time being, I think it's sufficient to say that the revenues coming from TIGF -- of TIGF, that we can estimate for this year are around EUR370 million, but more or less one-third is coming from storages to three-fourths transportation, and the EBITDA margin is something more than 60%.

Carlo Malacarne - Snam SpA - CEO [13]

And the second question, it's clear that if the final investment decision will be taken of TAP and the same of one LNG, the reason is that the supplier will have the possibility to sign the transmission contract. At the same time, the transmission contract means supplier contract and the transmission contractor.

If the question is that we need in Italy 16 or 18 bcm more than today, the answer is no. We have enough capacity, but the new sources of gas anyway, has the opportunity to create more competition in the gas price. And in terms of infrastructure, we have to set and to prepare the infrastructure for the transmission of the gas coming from TAP and of the LNG.

It's different sources, different timeframe of gas supply. I don't know if I have answered the question, but we don't need 18 more gas for the gas demand, but we need more gas and more liquidity to create more flexibility in the gas market and, let me say, gas price competition.

The second aspect is that I imagine my feeling is that if the supply of (inaudible) will be signed, that means there is the intention to bring more gas outside Italy, so the possibility to connect the Italian infrastructure to the European one.

Olivier Van Doosselaere - Exane BNP Paribas – Analyst [14]

Thank you very much. Maybe just one follow-up question on TIGF, though, did you expect to consolidate it proportionately or is it going to be an equity accounted?

Carlo Malacarne - Snam SpA - CEO [15]

Equity method.

Olivier Van Doosselaere - Exane BNP Paribas – Analyst [16]

Okay. Thank you very much.

Operator [17]

We have now one question from Enrico Bartoli from MainSource Bank

Enrico Bartoli - MainSource Bank - Analyst [18]

Hi, good afternoon. Just a couple of questions left. First of all, on the CapEx in the transfer business, from the figure you showed, there was a slow-down in the first half of this year compared to last year. Can you elaborate a bit on the reason of this trend, and what do you expect for the second half of the year.

And then, a follow-up on the discussion of TAP. Just a general opinion from you. Since already the Italian gas market has a lot of oversupply so the TAP is going to add additional capacity. In order to really realize this gas (inaudible) in the medium term in Italy, do you think that it is possible that the gas prices in Italy could reach, say, a discount compared to the central European level in order to allow by the economic point of view, the export of gas from Italy to Germany or the other markets. Thank you.

Antonio Pacciorette - Snam SpA – CFO [19]

Thank you, Enrico. For the CapEx, let me enlighten. First of all, the construction phase for a project will last at least for 2 years, sometimes 3 years. And in this period, the spending for the construction will be, let me say phase, with some period with the high level of spending and other periods with the low level of spending.

The reason why, in the first half of 2013, we have -- it's likely much more reduction in terms of spending the construction, but we confirm that the result is not a delay in our project. It's a different tuning in the spending of the project. We confirm our target of EUR1.3 billion by the end of the year. It's only (inaudible) in the spending construction phase.

In the second question, I think the question is very -- is a strategic question. I think we have to consider the Italian environment. First of all, I prefer to speak about the gas interconnection of Italy to the European account because gas (inaudible) is a commercial aspect.

We have to consider in Italy that we have the supplier coming from the take or pay price, take or pay contract, possibly take or pay price. We have spot gas which is very low. We speak about 10% -- 15%, no more considering the LNG supplier. With the TAP or new LNG, I think the consequences have increased the possibility of the spot amount, the spot quantity in Italy.

The direct impact for the price is the possibility of arbitrage to the different European (inaudible). It is not only a question of the over capacity of gas. It's clear that the consequence of an over-capacity is the possibility of price reduction, but in this case we speak about an over-capacity coming from the different sources with different prices.

The take or pay price will have to be re-discussed, the timeframe of the import for take or pay, which we are rediscussing. So we have an evolution in the environment which needs anyway, to increase the liquidity for increasing automatically the arbitrage to the different European (inaudible). The consequence is clear, could be a reduction or anyway an alignment with the spot price of gas.

Unidentified Participant [20]

Is there any more questions?

Operator [21]

We have now one question from Roberto Ranieri from Banca IMI.

Roberto Ranieri - Banca IMI - Analyst [22]

Yes, good afternoon, gentleman. Just two quick questions -- very quick questions, and the first one is about net debt and the working capital trend. Maybe I missed it, could you please give us again your guidance for full year end of December net debt, and some details about the -- if you will have some absorption or, you know, offsetting of this working capital positive effect at the end of this year?

The second question is about the operating costs. I understand that the controllable costs are under control, but variable and other costs are increasing, so I'm wondering if this variable and other costs will follow the same trend they had in the first half of 2013? At the end of the day, if you can give us a guidance, also, on OpEx including variable and other costs, as well, for the full year 2013. Thank you very much.

Carlo Malacarne - Snam SpA - CEO [23]

In relation to the first question, first of all, as far as the net working capital evolution and the effect on the cash flow, I think that it is reasonable to confirm, again, that it's to be considered substantially neutral in financial terms assuming for sure, assuming no significant no recurring elements in the year.

In terms of net debt at the end of the year, you remember, our previous guideline was around EUR13.1 billion, considering we confirmed such guidelines, but considering the closing of TIGF, it's necessary to consider also the expenditure for such an acquisition. So the guideline is to be -- is today EUR13.7 billion.

As far as the operating costs are concerned, please take note that the variable costs are, in particular, due to the -- are composed by possible costs, so without any significant input on the margins. But all in all, at the end of 2013, total costs are expected to be reduced -- reduced compared to the last year.

I will say that it's also taken into account that we accounted last year, we accounted some from provision that are not recurring.

Roberto Ranieri - Banca IMI - Analyst [24]

Okay, thank you.

Operator [25]

Our next question comes from Stefano Gamberini from Equita SIM.

Stefano Gamberini - Equita SIM - Analyst [26]

(Inaudible) three questions from me. First of all, regarding the debt on (inaudible) at the end of 2016. After this acquisition of TIGF, do you confirm the 55% leverage?

Second, regarding TAP, if I understood correctly, you expect EUR1.2 billion, EUR1.3 billion of additional CapEx for compression station and this amount is included in the EUR6.2 billion of 2013 and 2016 business plan or in the CapEx after 2016, the EUR4.6 billion you highlighted during the last presentation. And in this case, do you see any risk for your leverage considering that it is already at 55%

And the last item regarding the transported volume you expect in the second part of the year, an increase of transport volume, but also, the second quarter -- in the second quarter the gas (inaudible) in the storages. Why this situation and why do you expect that the second part, the shippers will start again to storage gas?

Antonio Pacciorette - Snam SpA – CFO [27]

Starting from the first one, the first question. As far as the guideline for our debt at the end of this year, I was saying before, it is in the range of EUR13.7 billion.

As far as our (inaudible) is concerned, I think that we have to start from the (inaudible) at the end of 2011, which was EUR22.7 billion. Then, we have for calculating our (inaudible) at the end of 2012, we have to assume, for the time being, we have to assume that the inflation rates that has been used by the regulator for the 2012 (inaudible) on the storage and to use such -- assume such inflation rates for the entire portfolio we have, therefore, reaching a level of (inaudible) at the end of 2012, at the level of EUR23 billion.

If we consider an inflation for 2013 between 1% and 2%, the (inaudible) at the end of 2013 can be calculated between EUR23.4 and EUR23.6 billion. On top of that, we have to consider the value of our affiliates. All in all, I think that the value of our assets, including the value of our affiliates and [the four] TIGF, at the end of this year, is around EUR25 billion.

Carlo Malacarne - Snam SpA - CEO [28]

The second question about the TAP evolution. First of all, we don't test the investment in our CapEx plan. The final investment decision for TAP will be taken by the end of 2013, is the timeframe, the beginning of 2014 and the reason why we have to study and to set the new project to increase the capacity for TAP.

What I said before, is a number to give you an idea of all the investment that we need to transport 10 bcm more than the 8 bcm set in our existing business plan. It's clear that the evolution of investment depends on the supplier contractor. Usually, without experience to arrive and to reach the regime of the transmission we need the 4 or 5 years.

The reason why we don't put EUR1.3 billion in the CapEx plan without understanding the time of the supplier -- the timeframe of the transmission contract, we don't think that EUR1.3 billion distributed a share in 2 or 3 years could create some -- could jeopardize our possibility of investment in the future CapEx plan. We speak about a timeframe 2017, '18, '19, so I don't see a risk in this respect.

Okay, the last question for the storage. Only because given the abnormal, not usual, let me say level, low level of re-injection activity recorded by the end of June, driven clearly by the declining gas demand and shrinking differential between summer and winter gas price because this is the reason.

Now with the resolution is number 310 resolution, the authority required the company storage to remove the minimum auction price in auctioning and still [unsold] the storage capacity. We speak about 400 million, 500 million storages known to be a quantity.

The reason why removing the auction price, the feeling is that we can complete the refilling of the storage. The consequent reduction in the unit storage tariff should actually pave the way for gas inventories recovery over the next few months. We expect by the end of the year to recover 100% or anyway a lot of the percentage of the existing capacity (inaudible).

It's clear that in a way that any costs related to the lower gas storage tariff would be covered by the system without, I have to be clear, without affecting on Stogit economic results.

Stefano Gamberini - Equita SIM - Analyst [29]

Just a quick follow-up, if I may, regarding the (inaudible) at the end of 2012, you said a (inaudible) of EUR23 billion, is this a little bit different with the last time, guidance of something in the region of EUR23.2 billion, EUR23.3 billion?

Antonio Pacciorette - Snam SpA – CFO [30]

It is different because in this estimation, we consider 1.2% of inflation which is the one which has been considered by the authority for the calculation of 2012 (inaudible). As you know, we are usually -- we usually assume inflation rate of 2%, which was the one assumed in giving you the previous guideline.

Carlo Malacarne - Snam SpA - CEO [31]

Only to complete my answer by storage. The consequence of the possibility to increase the storage refilling automatically give us the possibility to recover the gas transmission -- gas injecting into the network by the end of the year because we need import capacity to refill the storage.

The reason why we in the presentation we expect reduction of the (inaudible) we have in the gas transmission by the end of the year.

Stefano Gamberini - Equita SIM - Analyst [32]

Many thanks.

Operator [33]

We have now one question from Sarah Laitung from JPMorgan.

Sarah Laitung - JPMorgan - Anaylst [34]

Good afternoon. I was wondering if we could just go back to the cost of debt. You mentioned that the 3.7% average cost of debt for 2013 does not include full year impact from the renegotiation of bank facilities. I think you said you said it was 7 or 8 month's impact.

So could you say what you expect the average cost of debt to be in 2014, including this full year impact, and secondly, how much further could this 2014 cost of debt change with the issuance of more European Investment Bank debt?

Antonio Pacciorette - Snam SpA – CFO [35]

I'm trying to repeat the exercise for 2013 negative so permitting you to make your own calculation for 2014, because it's quite premature today to say what will be our cost of debt next year.

The average cost we expect this year is 3.7%, which has to be -- which is calculated taking into account the first half in which we have -- we had a cost of around 3.9%. So combining these two elements, you can easily, again, calculate our cost of debt today, which is the average of the current fixed rate position and the current floating requisition with the current interest scenario.

This is the result, if you assume debt, the interest scenario, we remain the same for the next year, this is the reasonable guideline that you can consider for 2014. In terms of the European Investment Bank, the cost of this financing are attractive for us, in particular, if you consider that the tenor is really longer -- is longer than the one that is permitted by the market today.

I think anyway that we are talking about the EUR300 million to EUR500 million, which I expect will benefit, will support the reduction of our cost of debt, but it's not a major, will not be a major element.

Today, we are -- the intention is to maintain such a position today's floating rates, so you have to consider the current floating rates with a spread of around 100 basis points.

Sarah Laitung - JPMorgan - Anaylst [36]

Okay, thank you.

Operator [37]

We have now one question from Pablo Cuadrado from Bank of America.

Pablo Cuadrado - Bank of America/Merrill Lynch - Analyst [38]

Yes, hi and good afternoon to everyone. Many of my questions has already answered, but I have two very quick ones. The first one is on the Robin Hood tax. I think when answering one of the questions regarding the dividend, I think it was the first one, you were mentioning that you prefer not to provide much more visibility going from next year onwards, waiting for developments on the regulation, the Robin Hood tax, et cetera.

I think you have defended, in the past, like many of your peers, that the current law clearly specified that the Robin Hood tax would decrease next year. My question, here, is that I was wondering whether you can -- or if you (inaudible) or if you have heard in the last few weeks or more, something from the new government that can make you more secure, that the Robin Hood tax is going to be decreasing next year versus the last 3 years for France.

And the second question is regarding the potential issuance of new bonds in the trade market, I think you have the ability to issue until June of next year EUR2.5 billion. Do you have any particular timetable that you expect to follow, it's more this year, given that you have liquidity issues, you may prefer for the right moment even waiting for next year, just trying to have a visibility of when we can have more new debt that can be used for refinancing more expensive debt. Thank you.

Carlo Malacarne - Snam SpA - CEO [39]

The first question, if I've understood, it's clear that speaking about Robin Hood. In our plan, we consider the existing low set by the government which consider starting from 2014, the impact of 6.5%, in the Robin Hood tax. The only reason why we prefer to give you a guideline of the new dividend starting from 2014, with the strategy, is because they're out on the table a lot of events, and it's clearly, is it not only prudent, but is a reasonable to set a medium to long-term guideline when we have a completely visibility without risk to give you some expectation without, let me say, the reasonable view in the next 2 or 3 years.

The only reason, I don't have, let me say, I don't think that we have the risk in re-discussing the dividend, but we have to consider all the evolution of the events in the second part of (inaudible). The same new CapEx plan could give -- have to give us some consideration about the evolution of the CapEx in the next 4 years and 5 years.

And all the (inaudible) -- we have, let me say, to analyze the impact of all the new events, regulation, CapEx plan to set a very credible medium to long-term dividend for our shareholders. I said before that any way is our commitment, is our objective to deliver significant value to our shareholder.

Antonio Pacciorette - Snam SpA – CFO [40]

As far as the strategy of the company for the next bond issuances, the -- you know the situation today -- our situation today is really different from the one that we had to manage the last year when we had to tap the market several times in order to reduce as far -- as soon as possible the refinancing risks associated with our balance sheet.

Today, the situation is different. We don't have any refinancing needs until 2015. We are financing our investment, also, with the support of the European Investment Bank, and so, we are quite relaxed about it. Frankly speaking, today the capital market is for us, an important option, is an important opportunity for reducing our cost of debt, for maintaining the tenor -- the strength of our capital structure, debt structure, but frankly speaking, I don't think -- I don't see the possibility in the short term of any new issuances.

Pablo Cuadrado - Bank of America/Merrill Lynch - Analyst [41]

Thank you.

Operator [42]

(Operator Instructions). We have now one question from [Gesete Rebusini] from (Inaudible).

Gesete Rebusini Analyst [43]

Good afternoon, gentlemen. Just a quick follow-up question on storage. You said, of course, your company will not affected by the delay in fill in storage this year or by the decreased tariff, but could you please explain if there is a lag time in cashing in the -- from the system the tariffs from storage, and what the process will be for you to recover the money that will not flow directly through the storage tariffs. Thanks.

Antonio Pacciorette - Snam SpA – CFO [44]

For this element, I think that the usual rules will apply. We have the guarantee of the revenues that will not be paid directly from the shippers, and that will be paid for -- again, according to the usual rules next year -- so, it's just a matter of a time lag as an average of six to nine month.

Today, we imagine an impact on working capital. All in all, debt can be estimated in EUR20 million, EUR25 million, but it's just -- a postponement of income, sorry, a payment of cash income.

Gesete Rebusini Analyst [45]

Thanks.

Operator [46]

(Operator Instructions).

Carlo Malacarne - Snam SpA - CEO [47]

If there are no more questions, thank you to everybody. Should you need any additional follow-up, please contact the IR department, and thank you everybody, and have a good afternoon.

Operator [48]

That will conclude today's conference call. Thank you for your participation, ladies and gentlemen, you may now disconnect.

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